



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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March 11, 2005

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FROM: ChangMook Sohn, Executive Director
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SUBJECT: March 10, 2005 REVENUE COLLECTION REPORT

Revenue surged in the most recent month due to strong consumer and business spending and a still red-hot real estate market. General Fund-state collections totaled \$718.6 million in the February 11–March 10, 2005 collection period. Tax payments were 15.2 percent (adjusted) higher than a year ago and \$63.3 million (9.7 percent) above the estimate for the period. Revenue Act (retail sales, business and occupation, use and public utility) taxes (+\$53.8 million) and real estate excise tax (+\$18.7 million) more than offset weaker estate tax (-\$3.4 million) and “other” revenue (-\$6.5 million) this period. Collections this month included a large, unexpected audit payment; however, the vast majority of the high variance is due to stronger than expected economic activity. Higher than expected collections this month increases the cumulative variance for the four months since the last forecast to \$179.4 million (4.5 percent.)

The U.S. economy added 262,000 jobs in February 2005, the best monthly gain since October 2004. The Federal Reserve reported that rising real estate values and a resurgent stock market pushed household net worth to an all-time high in the fourth of 2004. The improving labor market and increased wealth produced much stronger than expected consumer spending in the last four months. Consumer confidence rose in December and January following four months of decline, although it fell again in February. The February level, however, is only a little below the last July’s cyclical high. Mortgage rates remain lower than expected. Although the Fed has steadily increased short term rates, the impact on spending has been limited due to the lack of movement of long term rates. At the state level, seasonally adjusted wage and salary employment increased in January. January’s increase was the strongest since March 2004. While state wage and salary employment in the fourth quarter was a little less than we assumed in November, state personal income was higher, both including and excluding the special Microsoft dividend payment.

Spending as reflected by sales, use and business and occupation tax payments accelerated this period. Revenue Act receipts were a very strong 14.6 percent (adjusted for special factors) higher than a year-ago in the February 11- March 10 collection period (primarily reflecting January 2005 business activity). Revenue Act tax payments increased 7.0 percent last month and 8.9 percent two months ago. This month’s increase was the best year-over-year growth since 1997. In the four months since the November forecast, Revenue Act collection growth has average 9.5 percent. For the fiscal year-to-date collections are 7.7 higher than a year ago.

Preliminary industry data for the February 11, to March 10, 2005 collection period based on payment data of more than 12,000 mostly large taxpayers who filed electronically show strong growth across-the-board. Businesses in the retail trade and food services sector reported an 8.4 percent increase in tax payments. Last month retailers reported an 8.0 percent gain. All twelve three-digit retail sectors reported increases. Double digit gains were reported by five retailing sectors, with the largest gains reported by building materials/garden retailers (+22.2 percent) electronics and appliance stores (+12.6 percent), furniture and home furnishings retailers (+12.3 percent.) and general merchandise stores (+11.7 percent). Tax payments from auto dealers were up only 1.2 percent. Overall, tax payments by non-retail trade and food services business were up a strong 11.9 percent this month. Last month this category reported an 8.8 percent increase. The construction sector was again very strong, reporting a 19.9 percent increase in tax payments for the period. Manufacturers reported only a 2.9 percent increase but tax payments by firms in the information sector were up 17.6 percent. Sectors related to construction/real estate activity reported a 17.1 percent increase in tax payments, nearly twice the 8.8 percent increase of all other sectors.

Non-Revenue Act General Fund taxes were \$9.5 million above the estimate this period. Stronger than expected real estate excise tax (+\$18.7 million) and timber excise tax (+\$1.0 million) payments more than offset weaker than expected liquor, estate and "other" revenue (primarily brokered natural gas receipts). Cumulatively, for the four months since the November forecast Non-Revenue Act taxes are \$76.6 million higher than expected with the real estate excise tax (+\$60.2 million) and "other" (+\$12.4 million), primarily unclaimed property transfers, accounting for most of the positive variance. The State Supreme Court invalidated Washington's estate tax. The decision eliminates future collections and will result in refunds of some previously paid estate tax. Estate tax payments received this month likely reflect payments of decedents who died prior to January 2005 when the Federal state tax credit expired.

Low mortgage rates and a growing economy have again produced a very strong month of real estate activity. Taxable activity (based on closings in January which reflect tax payments to the state in February was 54.4 percent higher than a year-ago; last month activity was up 47.1 percent. increase. Higher prices again are the main reason for the large increase in activity, although transactions were also very strong this month. Transactions increased 21.0 percent, the largest increase in more than a year while the average value per transaction increased 27.7 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$10,000 above the estimate for the month. Cumulatively for the four months since the November forecast Department of Licensing collections are \$212,000 (11.0 percent) higher than expected.

The attached Table 1 provides a comparison of collections with the November 2004 forecast for the February 11, – March 10, 2005 collection period. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

TABLE 1
Revenue Collection Report
March 10, 2005 Collections Compared to the November 2004 Forecast
Thousands of Dollars

Period/Source	Estimate*	Actual	Difference Amount	Percent
February 11 - March 10, 2005				
Department of Revenue-Total	\$654,831	\$718,127	\$63,296	9.7%
Revenue Act** (1)	608,304	662,141	53,837	8.9%
Non-Revenue Act(2)	46,527	55,986	9,459	20.3%
Liquor Sales/Liter	7,687	7,254	(433)	-5.6%
Cigarette	3,879	3,641	(238)	-6.1%
Property (State School Levy)	(15,986)	(15,721)	266	-1.7%
Estate	6,996	3,583	(3,413)	-48.8%
Real Estate Excise	33,742	52,454	18,712	55.5%
Timber (state share)	1,782	2,830	1,048	58.8%
Other	8,427	1,944	(6,483)	-76.9%
Department of Licensing (2)	507	517	10	2.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$655,338	\$718,644	\$63,306	9.7%
Cumulative Variance Since the November 2004 Forecast (November 11, 2004 - March 10, 2005)				
Department of Revenue-Total	\$3,954,422	4,133,654	179,232	4.5%
Revenue Act** (3)	2,982,272	3,084,898	102,626	3.4%
Non-Revenue Act(4)	972,150	1,048,756	76,606	7.9%
Liquor Sales/Liter	36,816	37,250	433	1.2%
Cigarette	16,524	16,157	(366)	-2.2%
Property (State School Levy)	595,147	592,025	(3,122)	-0.5%
Estate	32,401	37,318	4,917	15.2%
Real Estate Excise	178,731	238,977	60,246	33.7%
Timber (state share)	3,624	5,684	2,060	56.8%
Other	108,908	121,346	12,438	11.4%
Department of Licensing (4)	1,937	2,149	212	11.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$3,956,359	\$4,135,803	\$179,444	4.5%

1 Collections Feb. 11 - March 10, 2005. Collections primarily reflect January 2005 activity of monthly taxpayers.

2 February 1-28, 2005 collections.

3 Cumulative collections, estimates and variance since the November 2004 forecast; (Nov. 11 - March 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the Nov. forecast; (November 2004 - Feb. 2005) and revisions to

5 Lottery transfers to the General Fund

* Based on the November 2004 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
February 10, 2005 Collection Report - Revised Data
Thousands of Dollars

Period/Source	Collections	Revised	Difference	
	Preliminary		Amount	Percent
January 11 - February 10, 2005				
Department of Revenue-Total	\$1,081,042	\$1,081,042	\$0	0.0%
Revenue Act (1)	980,609	980,609	(0)	-0.0%
Non-Revenue Act(2)	100,434	100,434	(0)	-0.0%
Liquor Sales/Liter	12,613	12,613	(0)	-0.0%
Cigarette	4,204	4,204	0	0.0%
Property (State School Levy)-net	(11,980)	(11,980)	(0)	0.0%
Property tax collections	10,015	10,015	(0)	-0.0%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	(0)	NA
Estate	9,167	9,167	(0)	-0.0%
Real Estate Excise	68,086	68,086	0	0.0%
Timber (state share)	0	0	0	NA
Other	18,344	18,344	(0)	-0.0%
Department of Licensing (2)	522	567	45	8.6%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,081,564	1,081,609	\$45	0.0%

Cumulative Receipts: November 11 - February 10, 2005 & Revisions to History

Department of Revenue-Total	3,415,527	\$3,415,527	(\$0)	-0.0%
Revenue Act (3)	2,422,757	2,422,757	(0)	-0.0%
Non-Revenue Act(4)	992,770	992,770	(0)	-0.0%
Liquor Sales/Liter	29,996	29,996	(0)	-0.0%
Cigarette	12,516	12,516	(0)	-0.0%
Property (State School Levy)-net after transfer	607,745	607,745	0	0.0%
Property tax collections	629,740	665,177	35,437	5.6%
transfer to the Student Achievement Acct.	(21,995)	(57,432)	(35,437)	NA
Estate	33,735	33,735	(0)	-0.0%
Real Estate Excise	186,522	186,522	0	0.0%
Timber (state share)	2,854	2,854	(0)	NA
Other	119,402	119,402	0	0.0%
Department of Licensing (4)	1,587	1,664	77	4.8%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$3,417,113	\$3,417,191	\$78	0.0%

Preliminary. Reported in the February 10, 2005 collection report.

1 Collections Jan. 11-Feb. 10, 2005. Collections primarily reflect December 2004 business activity of monthly taxpayers, q4, 2004 activity of quarterly filers and 2004 activity of annual filers

2 January 1-31, 2005 collections.

3 Cumulative receipts since the November 2004 forecast: November 11- February 10,2005 & revisions to history.

4 Cumulative receipts since the November 2004 forecast (November 2004 - January 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change

